TEACHERS' RETIREMENT BOARD

REGULAR MEETING

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SUBJECT: Adoption of June 30, 2002, Actuarial Valuation for the Cash Balance Benefit Program

ITEM NUMBER: 11b

ATTACHMENT(S): 1

ACTION: X

MEETING DATE: June 5, 2003

INFORMATION: ___

PRESENTER: Rick Reed

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**SUMMARY**

Section 26211 of the Education Code requires an annual actuarial valuation of the benefits provided under the Cash Balance (CB) Benefit Program of the State Teachers' Retirement Plan. The Consulting Actuary performs this valuation.

An actuarial valuation identifies the extent to which the current and future assets of the program are sufficient to pay the benefits promised by law. The actuarial valuation identifies the Actuarial Obligation for benefits to current participants and benefit recipients, which represents the cost of liabilities associated with service already performed. The Actuarial Obligation for benefits is then contrasted with the actuarial value of current assets to assess the adequacy of past funding. If the actuarial value of assets is less than the Actuarial Obligation for accrued benefits, an Unfunded Actuarial Obligation exists. An Unfunded Actuarial Obligation can arise in the CB Benefit Program if investment returns are less than the minimum interest rate paid to program participants or if actual non-investment experience differs from expected experience. The valuation also indicates the amounts available to fund the Gain and Loss Reserve and any additional earnings credit or any additional annuity credit to be declared by the Teachers' Retirement Board (Board).

The actuarial valuation that is being presented to the Board identifies assets and liabilities of the CB Benefit Program as of June 30, 2002, based on assumptions adopted by the Board at the February 2000 Board meeting. These assumptions modified the method by which assets are valued, reduced the projected rate of inflation and wage increases, and made largely offsetting changes in demographic assumptions. The valuation indicates that the CB Benefit Program had an Unfunded Actuarial Obligation, as of June 30, 2002, of $3.3 million, resulting in a funding ratio of 87 percent. The principal cause of the Unfunded Actuarial Obligation is that the assumed earnings rate on investments is 8 percent per year, while the actual return for the year was about –4.9 percent. This investment loss was, however, partially offset by the 5.5 percent Minimum Interest Rate being less than the assumed interest rate of 8 percent. The Consulting Actuary expects that in the long run, investment returns will exceed the interest rate and other amounts credited to CB Benefit Program accounts to eliminate this Unfunded Actuarial Obligation. Nonetheless, as a result of the Unfunded Actuarial Obligation, the Consulting Actuary does not recommend that an Additional Earnings Credit be granted at this time.

The Consulting Actuary, Mark O. Johnson, FSA, of Milliman USA, will present the Actuarial Valuation Report as of June 30, 2002 to the Board.

**RECOMMENDATION**

The staff recommends the Board adopt the June 30, 2002 Actuarial Valuation Report.

Attachment 1
Regular Meeting – Item 11b
June 5, 2003

PROPOSED
RESOLUTION
OF THE
TEACHERS' RETIREMENT BOARD

SUBJECT: Adoption of June 30, 2002, Actuarial Valuation for the Cash Balance Benefit Program

RESOLUTION NO. _____

WHEREAS, Section 26211 of the Education Code requires an annual actuarial valuation of the California State Teachers' Retirement System's assets and liabilities with respect to the Cash Balance Benefit Program; and

WHEREAS, Milliman USA. has performed the necessary actuarial calculations using the June 30, 2002 data provided by the California State Teachers' Retirement System; and

WHEREAS, the Teachers' Retirement Board has reviewed the June 30, 2002 Actuarial Valuation Report presented by Milliman USA; therefore, be it

RESOLVED that the Teachers' Retirement Board adopt the accompanying Actuarial Valuation Report from Milliman USA.

Adopted by:
Teachers' Retirement Board

on June 5, 2003

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JACK EHNES
Chief Executive Officer